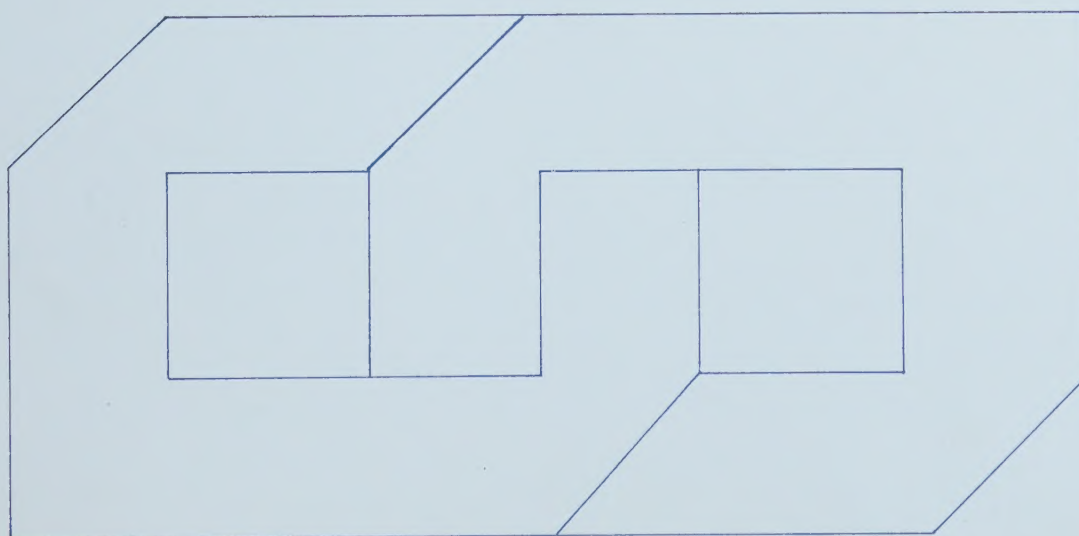


FEDERAL TRUSTCO INC. ANNUAL REPORT 1979





CORPORATE DIRECTORY

FEDERAL TRUSTCO INC.

Federal Trustco Inc. is a holding company whose principal subsidiary is Federal Trust Company. Federal Trust Company has eleven financial service branches in Ontario of which eight are in Metropolitan Toronto. These branches provide a full range of deposit, investment, lending and trust services. The company prides itself on providing high quality personal service.

Board of Directors

- * David S. Ades, B.Sc., A.M.C.T.

President

Federal Trustco Inc.

Federal Trust Company

Jeanne Ades

- * Leonard E. Barlow

Retired Investment Dealer

Roger I. Coe, C.A.

Senior Vice-President and Secretary

Federal Trustco Inc.

Federal Trust Company

- * William H. Harper

President

W.H. Harper Inc.

- * Peter Mackenzie

Director

Cadillac Explorations Limited

Calgary

**Audit Committee*

Officers

- * David S. Ades, B.Sc., A.M.C.T.

President

- * Roger I. Coe, C.A.

Senior Vice-President, Finance and Secretary

- * Andrew Grant

Vice-President, Branch Operations

Brian McConnell

*Assistant Vice-President, Administration
and Treasurer*

- * William R. Ryan

Assistant Vice-President, Mortgages

Donald J. Cotie

Comptroller

**Executive Committee*

Banker

Royal Bank of Canada

Trustees and Transfer Agents

Federal Trust Company

Common Shares

Guaranty Trust Company of Canada

Series A Debentures

Montreal Trust Company

Class A Shares, Series F Warrants

Stock Exchange Listing

Toronto Stock Exchange

Class A Shares, Series F

Warrants



PRESIDENT'S REPORT

The results for the year ended December 31, 1979 were disappointing. Net operating income declined from \$638,000 (87 cents per share) to \$138,000 (19 cents per share) and an overall net loss of \$471,000 was recorded compared to a net profit of \$424,000 the previous year.

The reason for the loss relates primarily to the extensive rise in interest rates that have occurred during the past two years and to a greater extent in the latter part of 1979. Rates started to rise in early 1978 and, contrary to expectations, continued to do so in 1979 reaching record levels. The chartered banks prime rate has increased from 8-1/4% in March 1978 to the present level of 15%. These high rates will continue to adversely affect our results until they subside.

As a result the Company has curtailed expansion in all areas of its activities. Steps have already been taken to reduce expenses and all efforts are being made to maximize those areas of the Company business that are fee income producing.

In addition, the Company has non-income producing assets such as lands and buildings which when sold will produce an income stream from the cash and mortgages taken back. Obviously all efforts are being made to dispose of these properties.

Although 1979 has been disappointing, there have been notable accomplishments. The Company continued to strengthen its personnel and as a result all internal administrative functions are operating smoothly. The Company has an excellent computer system with all major functions being on-line. Total assets, including assets under administration, increased by 12% to \$341 million.

Economic Outlook

Canada and, for that matter, the rest of the Western world has not been subjected to such turmoil perhaps

since the second World War. It is very hard to predict the outlook with any confidence. It is, however, my belief that with a majority government as we now have in Canada and with the resources our country has, that make it more self-supporting than most other countries, and with our rate of inflation being lower than some of our western counterparts, the future for our economy is perhaps brighter than would seem at first glance. I anticipate that short term rates will be significantly lower by the end of 1980 than they are now.

Company Outlook

The outlook for 1980 is for continuing losses until interest rates decline. As mentioned previously all possible steps have and are being taken to reduce these losses to a minimum. As soon as rates decline the Company should be in a position to move forward once again.

In Appreciation

On behalf of the Board of Directors I express warm thanks to all our people for their conscientious efforts in 1979. These men and women are the foundation for the Company's future.

My thanks are also extended to all shareholders for their support and I hope they will continue to make use of our broad range of financial services.

David S. Ades
President and Chief Executive Officer
February 29, 1980



FEDERAL TRUSTCO INC.
(formerly Realty Capital Corp. Limited)

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	<u>1979</u>	<u>1978</u>
Cash and short term investments	\$ 6,925,000	\$ 10,359,000
Investment income due and accrued	2,600,000	2,517,000
Securities (Note 2):		
Bonds	5,357,000	5,366,000
Stocks	12,134,000	9,924,000
	<u>17,491,000</u>	<u>15,290,000</u>
Loans:		
Demand and personal	7,145,000	6,166,000
Mortgages	154,390,000	141,330,000
	<u>161,535,000</u>	<u>147,496,000</u>
Real estate (Note 3):		
Rental properties held for sale	6,317,000	6,075,000
Land held for development or sale	2,745,000	2,311,000
	<u>9,062,000</u>	<u>8,386,000</u>
Investment in and advances to joint ventures (Note 4)	539,000	1,018,000
Other (Note 5)	1,656,000	2,535,000
Deferred income taxes (Note 12)	136,000	—
Premises, leasehold improvements and equipment (Note 6)	1,375,000	1,525,000
	<u>\$201,319,000</u>	<u>\$189,126,000</u>

APPROVED BY THE BOARD:

David S. Ades, *Director*

Roger I. Coe, *Director*

LIABILITIES

	December 31	
	<u>1979</u>	<u>1978</u>
Guaranteed trust deposits (Note 7):		
Demand	\$ 37,174,000	\$ 39,130,000
Term	21,151,000	12,331,000
Guaranteed investment certificates		
and debentures	120,399,000	115,286,000
Interest due and accrued	9,702,000	8,271,000
	<u>188,426,000</u>	<u>175,018,000</u>
Accounts payable and other	1,423,000	1,410,000
Income taxes payable	11,000	94,000
Bank loan	850,000	980,000
Mortgages payable (Note 8)	870,000	841,000
Long term debt (Note 9)	2,840,000	3,005,000
Minority interest (Note 10)	2,000,000	2,000,000
	<u>7,994,000</u>	<u>8,330,000</u>
Deferred income taxes	—	323,000

SHAREHOLDERS' EQUITY

Capital stock (Note 11)	2,524,000	2,524,000
Retained earnings	2,375,000	2,931,000
	<u>4,899,000</u>	<u>5,455,000</u>
	<u>\$201,319,000</u>	<u>\$189,126,000</u>

AUDITORS' REPORT

To the Shareholders of Federal Trustco Inc.:

We have examined the consolidated balance sheet of Federal Trustco Inc. as at December 31, 1979 and the consolidated statements of operations, retained earnings and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.

Chartered Accountants

Toronto
February 18, 1980



CONSOLIDATED STATEMENT OF OPERATIONS

	Year ended December 31	
	1979	1978
Income:		
Securities, including short term investments	\$ 2,324,000	\$ 2,040,000
Demand and personal loans	949,000	692,000
Mortgages	15,887,000	13,869,000
Profit on real estate	—	284,000
Fees, commissions and other	1,257,000	1,288,000
	<u>20,417,000</u>	<u>18,173,000</u>
Expenses:		
Interest on—		
Guaranteed trust deposits	16,581,000	13,446,000
Bank loan	136,000	112,000
Long term debt	262,000	182,000
	<u>16,979,000</u>	<u>13,740,000</u>
Salaries and staff benefits	2,042,000	1,898,000
Premises	661,000	638,000
Other operating	1,352,000	1,229,000
	<u>21,034,000</u>	<u>17,505,000</u>
Operating income (loss) before taxes	(617,000)	668,000
Income taxes (recoverable) (Note 12)	(755,000)	30,000
Net operating income	<u>138,000</u>	<u>638,000</u>
Net loss on investments (including provision for possible losses) after related income taxes of \$70,000 (1978 - \$103,000)	(54,000)	(106,000)
Write-down of deferred income taxes (Note 12)	(393,000)	—
Net income (loss) before minority interest	(309,000)	532,000
Minority interest (Note 10)	162,000	108,000
Net income (loss) for the year	<u>\$ (471,000)</u>	<u>\$ 424,000</u>
Earnings (loss) per Class A and Common share (Note 13):		
Net operating income	\$ 0.19	\$ 0.87
Net income (loss) for the year	\$ (0.64)	\$ 0.58
Fully diluted	\$ (0.43)	



CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31	
	<u>1979</u>	<u>1978</u>
Balance at beginning of year	\$ 2,931,000	\$ 2,654,000
Net income (loss) for the year	(471,000)	424,000
	<u>2,460,000</u>	<u>3,078,000</u>
Dividends (Note 11):		
Class A shares (15 cents per share; 20 cents per share 1978)	85,000	112,000
Common shares (20 cents per share in 1978)	—	35,000
	<u>85,000</u>	<u>147,000</u>
Balance at end of year	<u>\$ 2,375,000</u>	<u>\$ 2,931,000</u>



CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION

	Year ended December 31	
	<u>1979</u>	<u>1978</u>
SOURCES OF CASH		
Operations*	\$ (488,000)	\$ 672,000
Proceeds on real estate, net of profit included in operations	893,000	2,513,000
Increase in guaranteed trust borrowings	11,977,000	16,112,000
Increase in bank loan	—	90,000
Issue of preference shares by subsidiary company	—	2,000,000
Net other	2,057,000	—
	<u>14,439,000</u>	<u>21,387,000</u>
APPLICATIONS OF CASH		
Increase in securities	2,201,000	3,128,000
Increase in loans	14,039,000	12,972,000
Additions to real estate:		
Rental properties held for sale	953,000	1,205,000
Land held for development or sale	265,000	179,000
Additions to premises, leasehold improvements and equipment	35,000	118,000
Decrease in bank loan	130,000	—
Payments on long term debt	165,000	165,000
Dividends	85,000	147,000
Net other	—	3,332,000
	<u>17,873,000</u>	<u>21,246,000</u>
Increase (decrease) in cash for the year	(3,434,000)	141,000
Cash and short term investments at beginning of year	10,359,000	10,218,000
Cash and short term investments at end of year	<u>\$ 6,925,000</u>	<u>\$ 10,359,000</u>

*Represents net income or loss for the year after adjustments for depreciation, amortization of financing expenses, provision for possible losses on investments and deferred income taxes.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of Federal Trustco Inc. and all of its 99.7% owned subsidiary companies as listed below:

Federal Trust Company
Warchester Investments Limited
Sutton-Davis Estates North Inc.
276690 Ontario Limited (acquired in 1979)

Acquisitions are accounted for using the purchase method of accounting. The minority interest in common shares, which is not material, has been included with accounts payable on the balance sheet and operating expenses in the statement of operations.

(b) Securities

Stocks are carried at original cost and bonds at amortized cost. Where concurrent purchase and sale contracts of equal value are made for bonds of a similar investment quality, no gain or loss is recognized on the date of sale. The difference between the book value and the market value of the bonds sold is amortized over the lesser of the term to maturity of the bonds sold and purchased.

(c) Demand and personal loans

Provision for losses on loans is made as required. Interest income on demand loans is recorded on an accrual basis. On personal loans, interest income is amortized over the terms of the loans using the sum of the digits method.

(d) Mortgages

Mortgages are stated at their outstanding amount less unamortized discount and placement fees. Any amounts paid to maintain the Company's interest in the underlying security are included in the mortgage principal. Discount and placement fees are amortized on a straight-line basis over the terms of the mortgages. Provision for possible losses is made as required.

Mortgages taken back on the sale of land held for development or sale are discounted to yield current market rates and the discounts are amortized over the terms of the mortgages.

(e) Real estate

Real estate is carried at the lower of cost and estimated net realizable value, at the expected time of sale. Cost includes direct development and construction costs and direct carrying charges, such as mortgage interest, property taxes,

professional fees and other related costs. Also included are general and administrative expenses and interest on general borrowings considered applicable.

For rental properties held for sale, cost also includes net rental losses or income until time of sale or until a rental occupancy level of 70% has been achieved at which time depreciation charges commence at 2-1/2% on a straight-line basis.

Where properties are acquired by foreclosure, cost includes the mortgage receivable balance, accrued interest thereon and amounts paid to maintain the Company's position to the date title is acquired.

(f) Joint ventures

These investments are recorded using the equity accounting basis.

(g) Deferred expenses

Certain expenses, included in other assets, are deferred to provide proper matching of revenue and expenses. The significant items are:

- (i) Financing costs, including commissions, are written off over the terms of the related debt.
- (ii) Certain computer systems costs are written off over a period of 5 years from the implementation date of such systems.

(h) Premises, leasehold improvements and equipment

Premises, leasehold improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided to write off assets over their estimated useful lives as follows:

Buildings	2-1/2% straight-line
Leasehold improvements	over the remaining term of the lease plus first option period
Equipment	20% reducing balance
Computer equipment	over 7 years straight-line

(i) Income taxes

Full provision for income taxes is made in the financial statements using the tax allocation method, whereby income taxes related to timing differences are included in deferred income taxes. Timing differences arise as a result of including certain items of income and expense in one reporting period for financial accounting purposes and another for income tax purposes.

2. SECURITIES

Cost and market values, at December 31, are:

	1979		1978	
	Cost	Market	Cost	Market
Bonds —				
Government of				
Canada	\$ 878,000	\$ 775,000	\$ 1,066,000	\$ 954,000
Provinces of				
Canada	3,122,000	2,226,000	3,117,000	2,538,000
Municipalities	25,000	19,000	35,000	30,000
Corporations	1,332,000	1,129,000	1,148,000	980,000
	<u>5,357,000</u>	<u>4,149,000</u>	<u>5,366,000</u>	<u>4,502,000</u>
Stocks —				
Preferred	12,109,000	10,854,000	9,650,000	9,428,000
Common	25,000	20,000	274,000	279,000
	<u>12,134,000</u>	<u>10,874,000</u>	<u>9,924,000</u>	<u>9,707,000</u>
	<u>\$17,491,000</u>	<u>\$15,023,000</u>	<u>\$15,290,000</u>	<u>\$14,209,000</u>

3. REAL ESTATE

During 1979, the book value of rental properties held for sale increased by \$124,000 of capitalized carrying costs (1978-\$428,000). Depreciation expense for 1979 was \$28,000 and total accumulated depreciation amounted to \$56,000 at December 31, 1979. Carrying costs of \$96,000 (1978-\$179,000) were capitalized to land held for development or sale.

4. INVESTMENT IN AND ADVANCES TO JOINT VENTURES

At December 31, 1979 the investment in and advances to joint ventures is represented by the following:

10% undivided interest in		
415 Yonge Street —		
Land	\$237,000	
Building, net of accumulated depreciation	670,000	
Other net assets	12,000	
9-1/4% mortgage payable up to August 1,		
2001	(621,000)	
		\$298,000
25% interest in a corporate joint venture —		
Mortgages receivable	245,000	
Other net liabilities	(4,000)	
		241,000
		<u>\$539,000</u>

5. OTHER ASSETS

Included in other assets, at December 31, are the following items:

	1979	1978
Investment in Fedco Mortgage		
Investment Company	\$ 304,000	\$ 304,000
Investment in Federal Trust		
Dividend Income Fund	100,000	100,000
Due from Estates, Trusts and Agencies	370,000	—
Deferred expenses	323,000	381,000
Net realizable value of properties		
sold, to close subsequent to		
December 31	263,000	1,500,000
Other	296,000	250,000
	<u>\$1,656,000</u>	<u>\$2,535,000</u>

6. PREMISES, LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Book values, at December 31, are:

	1979			1978
	Cost	Accumulated depreciation and amortization	Net	Net
Land	\$ 188,000	\$ —	\$ 188,000	\$ 188,000
Buildings	550,000	110,000	440,000	442,000
Leasehold				
improvements	824,000	435,000	389,000	454,000
Equipment	861,000	503,000	358,000	441,000
	<u>\$2,423,000</u>	<u>\$1,048,000</u>	<u>\$1,375,000</u>	<u>\$1,525,000</u>

Depreciation and amortization charged against operations amounted to \$185,000 in 1979 and \$158,000 in 1978. A mortgage payable of \$83,000 is secured against certain land and a building.

7. GUARANTEED TRUST DEPOSITS

This represents the borrowings of Federal Trust Company. The consolidated balance sheet, at December 31, includes assets which, in compliance with the requirements of The Loan and Trust Corporations Act, are earmarked and set aside to guarantee repayments of the trust deposits as follows:

	1979	1978
Cash and short term investments	\$ 9,573,000	\$ 9,549,000
Securities	15,047,000	14,902,000
Loans	158,774,000	144,729,000
Rental properties held for sale	6,096,000	6,075,000
Other	3,173,000	4,064,000
	<u>\$192,663,000</u>	<u>\$179,319,000</u>

At December 31, 1979, the Company's guaranteed trust deposits exceeded the maximum allowed under The Loan and Trust Corporations Act. The Company is making its best efforts to comply with the requirements of the Act as soon as possible.

8. MORTGAGES PAYABLE

The mortgages payable are secured by specific charges on land held for development or sale and the Company's branch premises.

They bear interest at rates between 8% and 10-1/4% and call for principal repayments as follows:

1980	\$778,000
1981	55,000
1984	37,000
	<u>\$870,000</u>

9. LONG TERM DEBT

Long term debt of \$2,840,000 (1978-\$3,005,000) consists of 9-1/4% sinking fund debentures, Series A, due July 3, 1993.

The Trust Indenture securing the sinking fund debentures

Series A contains, among other things, restrictions as to the issuing of additional debentures and of other secured debt and on paying dividends. The Company has covenanted to pay by way of a mandatory sinking fund, sums sufficient to retire \$165,000 principal amount of debt on or before July 3 in each of the years 1980 to 1993 inclusive.

10. MINORITY INTEREST

The main provisions of the 100,000 floating rate, cumulative, retractable, redeemable preference shares with a par value of \$20 each issued by Federal Trust Company and held by a chartered bank are as follows:

- (a) Dividends are payable quarterly at a rate of 2% over 1/2 of the chartered banks' prime demand loan interest rate. If four such payments are not made, the preference shareholders are entitled to elect two members of the Board of Directors of Federal Trust.
- (b) Shares are retractable at par value, with 12,500 shares to be retracted on March 1 in each of the years 1981 to 1988, subject to the restrictions in The Loan and Trust Corporations Act (Ontario).
- (c) Shares are redeemable at \$21 per share before March 1, 1981 and at \$20 thereafter.
- (d) Unless all preference dividend and retraction requirements have been met, Federal Trust may not declare dividends on common shares or redeem common shares, without the prior approval of the preference shareholders.
- (e) Approval of Federal Trust's preference shareholders is required for additional capital borrowings or share issues other than common by Federal Trust.
- (f) All outstanding preference shares are immediately retractable, subject to the restrictions in The Loan and Trust Corporations Act (Ontario), in any of the following circumstances:
 - if a quarterly dividend payment is not made as required.
 - if 12,500 shares are not retracted as scheduled.
 - if conditions noted in paragraphs (d) and (e) are not met.

During 1979, preference dividends of \$162,000 were paid to the minority shareholders in accordance with the provisions relating to such preference shares.

11. CAPITAL STOCK

Details of authorized and issued capital at December 31, 1978 and 1979:

Authorized —

2,000,000 cumulative (20 cents) non-voting participating Class A shares without par value
360,000 common shares without par value

Issued —

562,514 Class A shares.....	\$2,190,000
174,400 common shares.....	334,000
	<u>\$2,524,000</u>

At December 31, 1979 there are 175,000 Series F share warrants outstanding which entitle the holders to acquire one Class A share for each warrant held to July 3, 1983 at an exercise price of \$7.75.

The Class A shareholders are entitled to a cumulative preferential dividend of 20 cents per share per annum. No dividend shall be paid on the common shares in any year unless the dividend requirements for Class A shares including arrears have been met. In 1979 the Company paid dividends of 15 cents per Class A share.

12. INCOME TAXES

The income tax provision (recovery) included in net operating income is different than the prevailing corporate tax rate because income includes non-taxable dividends.

The total provision for (recovery of) current and deferred income taxes reflected in the statement of operations relates to the following:

	1979		
	Current	Deferred	Total
Operating income.....	\$ (17,000)	\$ (738,000)	\$ (755,000)
Loss on investments.....	44,000	(114,000)	(70,000)
Write-down of deferred income taxes.....	—	393,000	393,000
	<u>\$ 27,000</u>	<u>\$ (459,000)</u>	<u>\$ (432,000)</u>

	1978		
	Current	Deferred	Total
Operating income.....	\$ 82,000	\$ (52,000)	\$ 30,000
Loss on investments.....	(4,000)	(99,000)	(103,000)
	<u>\$ 78,000</u>	<u>\$ (151,000)</u>	<u>\$ (73,000)</u>

The 1979 statement of operations includes a net deferred tax recovery of \$459,000, of which \$136,000 represents a future tax benefit relating to the carry forward for tax purposes of certain expenses which have been written off in the books. Such tax benefits will be realized in the future when taxable income is generated.

While management is confident that operating results will improve in the future, there is some uncertainty as to when the additional tax benefits not recorded in the books of \$393,000 might be realized. Accordingly, management has concluded that it would not be prudent to recognize the total future potential tax benefit arising from 1979 operations.

13. EARNINGS PER SHARE

Fully diluted earnings per share reflect the result as if the Series F share warrants with dilutive effects outstanding at the end of the period had been exercised at the beginning of the period. For the purpose of these calculations earnings of \$81,000 have been imputed at an after-tax rate of 6%.

14. COMMITMENTS

(a) Mortgages

Outstanding commitments for future advances amounted to approximately \$7,200,000 at December 31, 1979.

(b) Leases

Under lease commitments expiring over the next ten years, the Company is committed to annual rental payments of \$404,000.



FEDERAL TRUSTCO INC.

FEDERAL TRUST TOWER
415 YONGE ST., TORONTO
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